



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2009 Biennium

Bill #	HB0131	Title:	Generally revise public employee retirement laws
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Primary Sponsor:	Sesso, J.	Status:	Third Reading
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Retirement Systems Affected:

<input type="checkbox"/> Teachers	<input checked="" type="checkbox"/> Public Employees	<input checked="" type="checkbox"/> Highway Patrol	<input checked="" type="checkbox"/> Police
<input checked="" type="checkbox"/> Sheriffs	<input checked="" type="checkbox"/> Firefighters	<input type="checkbox"/> Volunteer Firefighters	<input checked="" type="checkbox"/> Judges
	<input type="checkbox"/> Game Wardens		

Check the box if "Yes".

- ☐ Has this legislation been reviewed by the legislative interim committee?
- ☒ Has the cost of this legislation been calculated by the system's actuary?
- ☒ Does this legislation include full funding for any benefit revisions?

Public Employees Retirement System (PERS)

	July 1, 2006 Current System	Impact of Changes
Present Value of Benefits	\$4,756,316,000	\$0
Future Normal Costs	<u>\$837,003,000</u>	\$0
Present Value of Actuarial Liability	\$3,919,313,000	\$0
Present Value of Actuarial Assets	<u>\$3,459,084,000</u>	\$0
Lump Sum Equivalent Reduction in the Unfunded Actuarial * Accrued Liabilities (AAL) for Future Contributions Unfunded/(Funded)	\$460,229,000	\$0
Amortization Period of AAL as of July 1, 2007	does not amortize	30.2 years
* Including PCR-UAL of \$18,754,000		

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Employee Contribution Rate	6.90%	6.90%	6.90%	6.90%	6.90%
State & Univ Employer Contr Rate	6.90%	7.035%	7.035%	7.17%	7.17%
Local Govt Employer Contr Rate	6.80%	6.935%	6.935%	7.07%	7.07%
State Contr Rate for Local Govt	0.10%	0.100%	0.100%	0.10%	0.10%
School Employer Contr Rate	6.80%	6.800%	6.800%	6.80%	6.80%
State Contr Rate for Schools	0.10%	0.235%	0.235%	0.37%	0.37%
 TOTAL Contribution Rate**	 13.80%	 13.935%	 13.935%	 14.07%	 14.07%

**The employer contribution rates are based on the rates applicable to the different employer types.

Sheriffs' Retirement System (SRS)

	July 1, 2006 Current	Impact of Changes
Present Value of Future Benefits	\$241,463,000	\$0
Future Normal Costs	<u>\$69,622,000</u>	\$0
Present Value of Actuarial Liability	<u>\$171,841,000</u>	\$0
Present Value of Actuarial Assets	<u>\$163,003,000</u>	\$0
Lump Sum Equivalent Reduction in the Unfunded Actuarial Accrued Liabilities (AAL) for Future Contributions Unfunded/(Funded)	<u>\$8,838,000</u>	\$0
Amortization Period of AAL as of July 1, 2007	does not amortize	30.6 years

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Average Employee Contr Rate	9.245%	9.245%	9.245%	9.245%	9.245%
Employer Contribution Rate	9.535%	9.825%	9.825%	10.115%	10.115%
State Contribution Rate	0.000%	0.000%	0.000%	0.000%	0.000%
TOTAL Contribution Rate	18.780%	19.070%	19.070%	19.360%	19.360%

Game Wardens' and Peace Officer Retirement System (GWPORS)

	July 1, 2006 Current System	Impact of Changes
Present Value of Actuarial Liability	\$64,183,000	\$0
Present Value of Actuarial Assets	\$58,813,000	\$0
Present Value of GABA Reduction (over 13.4 years)	\$0	(\$2,200,000)
Lump Sum Equivalent Reduction in the Unfunded Actuarial Accrued Liabilities (AAL) for Future Contributions Unfunded/(Funded)	\$5,370,000 *	(\$2,200,000)
Amortization Period of AAL as of July 1, 2007	31.4	13.4

*The actuarially required lump sum amount is \$203,000 (as of July 1, 2006)

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Average Employee Contr Rate	10.56%	10.56%	10.56%	10.56%	10.56%
Employer Contribution Rate	9.00%	9.00%	9.00%	9.00%	9.00%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	19.56%	19.56%	19.56%	19.56%	19.56%

Judges' Retirement System (JRS)

	July 1, 2006 Current System	Impact of Changes
Present Value of Actuarial Liability	\$37,159,000	\$0
Present Value of Actuarial Assets	\$51,808,000	\$0
Present Value of GABA Reduction (over 30 years)	\$0	(\$806,000)
Lump Sum Equivalent Reduction in the Unfunded Actuarial Accrued Liabilities (AAL) for Future Contributions Unfunded/(Funded)	(\$14,649,000)	(\$806,000)
Amortization Period of AAL as of July 1, 2007	surplus	surplus

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Average Employee Contr Rate	7.00%	7.00%	7.00%	7.00%	7.00%
Employer Contribution Rate	25.81%	25.81%	25.81%	25.81%	25.81%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	32.81%	32.81%	32.81%	32.81%	32.81%

Highway Patrol Officers' Retirement System (HPORS)

	July 1, 2006 Current System	Impact of Changes
Present Value of Actuarial Liability	\$112,002,000	\$0
Present Value of Actuarial Assets	\$87,189,000	\$0
Present Value of GABA Reduction (over 15.8 years)	\$0	(\$1,184,000)
Lump Sum Equivalent Reduction in the Unfunded Actuarial Accrued Liabilities (AAL) for Future Contributions Unfunded/(Funded)	\$24,813,000	(\$1,184,000)
Amortization Period of AAL as of July 1, 2007	17	15.8

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Average Employee Contr Rate	9.05%	9.05%	9.05%	9.05%	9.05%
Employer Contribution Rate	26.15%	26.15%	26.15%	26.15%	26.15%
State Contribution Rate	10.18%	10.18%	10.18%	10.18%	10.18%
TOTAL Contribution Rate	45.38%	45.38%	45.38%	45.38%	45.38%

Municipal Police Officers' Retirement System (MPORS)

	July 1, 2006 Current System	Impact of Changes
Present Value of Actuarial Liability	\$291,099,000	\$0
Present Value of Actuarial Assets	\$175,919,000	\$0
Present Value of GABA Reduction (over 18.5 years)	\$0	(\$6,664,000)
Lump Sum Equivalent Reduction in the Unfunded Actuarial Accrued Liabilities (AAL) for Future Contributions Unfunded/(Funded)"	\$115,180,000	(\$6,664,000)
Amortization Period of AAL as of July 1, 2007	20.4	18.5

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Average Employee Contr Rate	9.00%	9.00%	9.00%	9.00%	9.00%
Employer Contribution Rate	14.41%	14.41%	14.41%	14.41%	14.41%
State Contribution Rate	29.37%	29.37%	29.37%	29.37%	29.37%
TOTAL Contribution Rate	52.78%	52.78%	52.78%	52.78%	52.78%

Firefighters' Unified Retirement System (FURS)

	July 1, 2006 Current System	Impact of Changes
Present Value of Actuarial Liability	\$255,513,000	\$0
Present Value of Actuarial Assets	\$167,343,000	\$0
Present Value of GABA Reduction (over 13.9 years)	\$0	(\$2,520,000)
Lump Sum Equivalent Reduction in the Unfunded	\$88,170,000	(\$2,520,000)
Actuarial Accrued Liabilities (AAL) for Future Contributions Unfunded/(Funded)		
Amortization Period of AAL as of July 1, 2007	14.5	13.9

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Average Employee Contr Rate	10.69%	10.69%	10.69%	10.69%	10.69%
Employer Contribution Rate	14.36%	14.36%	14.36%	14.36%	14.36%
State Contribution Rate	32.61%	32.61%	32.61%	32.61%	32.61%
TOTAL Contribution Rate	57.66%	57.66%	57.66%	57.66%	57.66%

	Difference	Difference	Difference	Difference
Expenditures:				
General Fund	\$309,632	\$322,932	\$674,929	\$705,300
General Fund (statutory)	\$176,144	\$183,630	\$383,786	\$401,056
State Special Revenue	\$212,658	\$219,706	\$459,185	\$478,228
Federal Special Revenue	\$138,193	\$141,973	\$296,723	\$310,075
Proprietary	\$80,831	\$84,202	\$175,981	\$183,900
University Other	\$79,830	\$84,647	\$179,966	\$188,064
Revenue:				
Other - Pension Funds	\$1,495,935	\$1,558,229	\$3,422,361	\$3,574,509
Net Impact-General Fund Balance:	<u>(\$485,776)</u>	<u>(\$506,562)</u>	<u>(\$1,058,715)</u>	<u>(\$1,106,356)</u>

Description of fiscal impact:

HB131 reduces the Guaranteed Annual Benefit Adjustment (GABA) from 3% to 1.5%. As amended, this bill increases the employer contribution to the respective unfunded retirement systems over two biennium. The increases are not sufficient to actuarially fund PERS and SRS within 30 years as required by the Governmental Accounting Standards Board and the Constitution of Montana. In addition, it provides a statutory general fund appropriation to fund the school district share of the increased employer contribution.

FISCAL ANALYSIS

Assumptions:

For all Systems:

1. This bill increases the employer contribution to the respective retirement systems over two biennium but fails to keep the systems actuarially sound, as required by the Constitution of Montana.
2. The increased contributions provided by this bill will sunset when the system's unfunded liability can be amortized over a period equal to or less than 25 years.
3. The GABA will be reduced from 3 percent to 1.5 percent effective July 1, 2007 for all new hires.
4. Membership will remain stable across all systems.
5. Salaries will increase at a rate of 4.25 percent per year (actuarial assumption).
6. All calculations are based on the July 1, 2006 actuarial valuations.
7. The actuarial valuations are available on our website at <http://mpera.mt.gov/annualReports.asp>

For Public Employee Retirement System (PERS):

8. Employer contributions increase from 6.9% to 7.035% effective July 1, 2007 and increase to 7.17% effective July 1, 2009.
9. Without the reduction of the GABA, the increase in employer contributions would be 1.01% for PERS.
10. The present value of the impact of reducing the GABA over the next 30 years is \$120.6 million for PERS.
11. For FY 2006 covered payroll for State Agencies totaled \$401,980,281; for FY 2006 covered payroll for Universities totaled \$91,509,494; for FY 2006 covered payroll for Local Governments totaled \$325,168,556; for FY 2006 covered payroll for School Districts totaled \$117,117,556.
12. The contribution rate increase for school districts will be paid by the State general fund. The general fund costs are funded through an appropriation included in the bill.
13. HB 131 creates a new statutory appropriation to fund the school district employer contributions rate increase.
14. 17-1-508, MCA requires analysis of the statutory appropriation relative to the guidance in 17-1-508 (2) MCA to be published in the fiscal note. The guidelines and analysis are as follows.
 - a. The fund or use requires an appropriation.
The use of the general fund for this purpose does require an appropriation.
 - b. The money is not from a continuing, reliable, and estimable source.
The general fund is a continuing, reliable, and estimable source.
 - c. The use of the appropriation or the expenditure occurrence is not predictable and reliable.
The expenditures in HB 131 are reasonably predictable and reliable.
 - d. The authority does not exist elsewhere.
Authority does not exist elsewhere. Without this statutory appropriation county levies will increase by \$126,824 (72%) per year and HB 2 appropriation for retirement levies will increase by \$49,320 (28%) per year.
 - e. An alternative appropriation method is not available, practical, or effective.
The above alternative method causes a direct property tax increase. A HB 2 appropriation may add uncertainty to the actuarial analysis.
 - f. Other than for emergency purposes, it does not appropriate money from the state general fund.
This is a statutory appropriation from the general fund that is not an emergency, but it satisfies the constitutional provision for actuarial sound pension system.
 - g. The money is dedicated for a specific use.
This is a statutory appropriation designated for the specific purpose of providing the employer contribution increases for school districts to actuarially fund the PERS.
 - h. The legislature wishes the activity to be funded on a continual basis.
The funding needs to be continued in order to maintain actuarial soundness.

- i. When feasible, an expenditure cap and sunset date are included.

A sunset is included in the bill. Section 1 19-3-316(4) (a) The board shall periodically review the additional employer contribution provided for under subsection (3) and recommend adjustments to the legislature as needed to maintain the amortization schedule set by the board for payment of the system's unfunded liabilities.

(b) The employer contribution required under subsection (3) terminates on July 1 immediately following the system's actuarial valuation if:

(i) the actuarial valuation determines that the period required to amortize the system's unfunded liabilities, including adjustments made for any benefit enhancements enacted by the legislature after the valuation, is less than 25 years; and

(ii) terminating the additional employer contribution would not cause the amortization period as of the most recent actuarial valuation to exceed 25 years.

The employer contribution will be evaluated on a regular basis.

PERS Funding	FY 2008 Current Law Required Contribution	FY 2008 Additional Contribution	FY 2009 Additional Contribution	FY 2010 Additional Contribution	FY 2011 Additional Contribution
State					
General Fund	\$10,882,422	\$242,573	\$253,316	\$529,431	\$553,255
State Special	\$9,481,583	211,348	218,343	456,337	476,873
Federal	\$6,172,886	137,596	141,352	295,426	308,720
Proprietary	\$3,607,463	80,412	83,766	175,070	182,948
<i>State Subtotal</i>	<i>\$30,144,354</i>	<i>\$671,929</i>	<i>\$696,777</i>	<i>\$1,456,264</i>	<i>\$1,521,796</i>
Montana University System					
Current Unrestricted - General Fund	\$1,522,027	\$63,235	\$65,636	\$137,179	\$143,352
Current Unrestricted - Other	2,016,960	11,159	11,583	24,208	25,297
Non Current Unrestricted - Other	3,323,276	68,671	73,064	155,758	162,767
<i>Montana University System Subtotal</i>	<i>\$6,862,263</i>	<i>\$143,065</i>	<i>\$150,283</i>	<i>\$317,145</i>	<i>\$331,416</i>
K-12 Schools					
General Fund (Statutory Appropriation)	\$1,965,218	\$176,144	\$183,630	\$383,786	\$401,056
County Levy	5,313,565	-	-	-	-
Federal	1,503,819	-	-	-	-
<i>K-12 Schools Subtotal</i>	<i>\$8,782,602</i>	<i>\$176,144</i>	<i>\$183,630</i>	<i>\$383,786</i>	<i>\$401,056</i>
<i>Local Government</i>	<i>\$23,988,334</i>	<i>\$394,591</i>	<i>\$411,360</i>	<i>\$1,020,157</i>	<i>\$1,063,513</i>
Grand Total	\$69,777,552	\$1,385,729	\$1,442,050	\$3,177,352	\$3,317,781

For Sheriffs' Retirement System (SRS):

15. Employer contributions increase from 9.535% to 9.825% effective July 1, 2007 and 10.115% effective July 1, 2009.
16. Without the reduction of the GABA, the increase in employer contributions would be 1.84% for SRS.
17. The present value of the impact of reducing the GABA over the next 30 years is \$9.6 million for SRS.
18. For FY 2006 covered payroll for State Agencies totaled 2,004,267; for FY 2006 covered payroll for Counties totaled \$32,237,655.

SRS Funding		FY 2008 Current Law Required Contribution	FY 2008 Additional Contribution	FY 2009 Additional Contribution	FY 2010 Additional Contribution	FY 2011 Additional Contribution
State						
	General Fund	\$91,364	\$3,824	\$3,980	\$8,319	\$8,693
	State Special	55,675	1,310	1,363	2,848	2,976
	Federal	48,537	597	621	1,297	1,355
	Proprietary	17,131	419	436	911	952
<i>State Subtotal</i>		<i>\$212,707</i>	<i>\$6,150</i>	<i>\$6,400</i>	<i>\$13,375</i>	<i>\$13,976</i>
<i>Local Government</i>		<i>\$3,421,283</i>	<i>\$104,056</i>	<i>\$109,779</i>	<i>\$231,634</i>	<i>\$244,373</i>
Grand Total		\$3,633,990	\$110,206	\$116,179	\$245,009	\$258,349

For Game Wardens' and Peace Officers' Retirement System (GWPORS):

19. Employer contributions will remain unchanged at 9%.
20. Without the reduction of the GABA, the increase in employer contributions would be 0.04% for GWPORS.
21. The present value of the impact of reducing the GABA over the next 13.4 years is \$2.2 million for GWPORS.
22. The GWORS is actuarially funded over 13.4 years measured from July 1, 2007.

GWPOS Funding		FY 2008 Current Law Required Contribution	FY 2008 Additional Contribution	FY 2009 Additional Contribution	FY 2010 Additional Contribution	FY 2011 Additional Contribution
State						
	General Fund	\$1,671,652	\$0	\$0	\$0	\$0
	State Special	711,707	0	0	0	0
	Federal	44,894	0	0	0	0
	Proprietary	6,602	0	0	0	0
<i>State Subtotal</i>		<i>\$2,434,855</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>
Montana University System						
	Current Unrestricted - General Fund	\$17,484	\$0	\$0	\$0	\$0
	Current Unrestricted - Other	23,312	0	0	0	0
	Non Current Unrestricted - Other	52,453	0	0	0	0
<i>Montana University System Subtotal</i>		<i>\$93,249</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>
Grand Total		\$2,528,104	\$0	\$0	\$0	\$0

For Judges' Retirement System (JRS):

23. Employer contributions will remain unchanged at 25.81%.
24. The present value of the impact of reducing the GABA over the next 30 years is \$806 thousand for JRS.
25. The JRS has an actuarial surplus.

For Highway Patrol Officers' Retirement System (HPORS):

26. Employer contributions will remain unchanged at 26.15%.
27. The present value of the impact of reducing the GABA over the next 15.8 years is \$1.2 million for HPORS.
28. The HPORS is actuarially funded over 15.8 years measured from July 1, 2007.

For Municipal Police Officers' Retirement System (MPORS):

29. Employer contributions will remain unchanged at 14.41%.
30. The present value of the impact of reducing the GABA over the next 18.5 years is \$6.6 million for MPORS.

31. The MPORS is actuarially funded over 18.5 years measured from July 1, 2007.

For Firefighters' Unified Retirement System (FURS):

32. Employer contributions will remain unchanged at 14.36%.

33. The present value of the impact of reducing the GABA over the next 13.9 years is \$2.5 million for FURS.

34. The FURS is actuarially funded over 13.9 years measured from July 1, 2007.

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Personal Services	\$821,144	\$853,460	\$1,786,784	\$1,865,567
Local Assistance	\$176,144	\$183,630	\$383,786	\$401,056
TOTAL Expenditures	\$997,288	\$1,037,090	\$2,170,570	\$2,266,623
<u>Funding of Expenditures:</u>				
General Fund (01)	\$309,632	\$322,932	\$674,929	\$705,300
General Fund (01) Statutory	\$176,144	\$183,630	\$383,786	\$401,056
State Special Revenue (02)	\$212,658	\$219,706	\$459,185	\$478,228
Federal Special Revenue (03)	\$138,193	\$141,973	\$296,723	\$310,075
Proprietary (06)	\$80,831	\$84,202	\$175,981	\$183,900
University Funds (Other)	\$79,830	\$84,647	\$179,966	\$188,064
TOTAL Funding of Exp.	\$997,288	\$1,037,090	\$2,170,570	\$2,266,623
<u>Revenues:</u>				
Other - Pension Funds	\$1,495,935	\$1,558,229	\$3,422,361	\$3,574,509
TOTAL Revenues	\$1,495,935	\$1,558,229	\$3,422,361	\$3,574,509
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$485,776)	(\$506,562)	(\$1,058,715)	(\$1,106,356)
State Special Revenue (02)	(\$212,658)	(\$219,706)	(\$459,185)	(\$478,228)
Federal Special Revenue (03)	(\$138,193)	(\$141,973)	(\$296,723)	(\$310,075)
Proprietary (06)	(\$80,831)	(\$84,202)	(\$175,981)	(\$183,900)
University Funds (Other)	(\$79,830)	(\$84,647)	(\$179,966)	(\$188,064)
Other - Pension Funds	\$1,495,935	\$1,558,229	\$3,422,361	\$3,574,509

Effect on Local Governments:

Local governments include city and county governments, conservation districts, water and sewer districts, and other local government entities. Funding for these entities is a mixture of mill levies, fees and charges and other sources. Local governments may reduce other expenditures or increase revenue to cover these increased costs.

1. Local governments will fund the increased employer contributions.

Increase in Employer Contributions					
		FY 2008	FY 2009	FY2010	FY 2011
PERS	Local Government	\$394,591	\$411,360	\$1,020,157	\$1,063,513
SRS	Local Government	\$104,056	\$109,779	\$231,634	\$244,373

Long Range Impacts:

1. The statutory appropriation to pay the increased contribution for school districts to PERS by the State general fund is indefinite and will continue to increase as future salaries increase until the legislature chooses to repeal this provision.
2. To the extent the actual experience will vary from that assumed in the preparation of this fiscal note, projected cost will be less than or greater than shown.

Technical Notes:

1. As amended, this bill increases the employer contribution to the respective unfunded retirement systems over two biennium. The increases are not sufficient to actuarially fund PERS and SRS within 30 years as required by the Governmental Accounting Standards Board and the Constitution of Montana.
2. By amending out the allocation of the additional compensation in 19-3-2117(2)(b) and 19-21-214(2)(b), the law will cause intricacy and inequity in the administration of the PERS system. It would be preferable to have codification requirements and consistency in the way the PERB processes contributions.
3. The PERB will periodically review the additional employer contribution and recommend adjustments to the legislature as needed to maintain the amortization of the unfunded liability and the sunset provision for both PERS and SRS.
4. The unfunded liability doesn't change as a result of decreasing the GABA. The normal cost rate or the cost to fund an individual's lifetime retirement benefit from their entry date will slowly decrease. The ultimate reduction in the normal cost rate is projected over a 30-year period. It is the rate expected when no active members remain who are entitled to the current GABA.

Sponsor's Initials

Date

Budget Director's Initials

Date